

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 EB-07 CIAE-00 COME-00 INR-07 LAB-04

NSAE-00 SIL-01 DODE-00 PM-04 H-02 L-03 NSC-05 PA-01

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SUBJ\$4 PARTIAL WORKER OWNERSHIP OF IRANIAN INDUSTRIES

REFS: A) TEHRAN 6942 B) TEHRAN 7657 C) TEHRAN A-163

1. B

GIN UNCLASSIFIED SUMMARY: THE COUNCIL OF EXPANSION OF INDUSTRIAL OWNERSHIP SUCCEEDED IN HAVING 11 MAJOR FIRMS OFFER ON SEPTEMBER 23, 20 PERCENT OF EQUITY FOR SHARE PURCHASE BY WORKERS. THIS REPRESENTS CONSIDERABLE SLIPPAGE IN SCHEDULE, BUT THE GOAL FOR 1354 (MARCH 20, 1976) OF 106 FIRMS PARTICIPATING IN THE WORKER OWNERSHIP PROGRAM IS STILL SEEN AS ATTAINABLE. ON THE SAME DAY OCCURRED THE FIRST PUBLIC OFFERING OF SHARES IN THE IRAN NATIONAL INVESTMENT COMPANY, A NEW INSTITUTION WHICH, INTER ALIA, WILL PURCHASE EQUITY SHARES OF PRIVATE AND PUBLIC ENTERPRISES.

2. THE COUNCIL OF EXPANSION OF INDUSTRIAL OWNERSHIP, MINISTRY OF ECONOMIC AFFAIRS AND FINANCE (MEAF), ANNOUNCED SEPT. 23 THAT THE NATION'S 11 LARGEST INDUSTRIAL CORPORATIONS HAD OFFERED 20 PERCENT OF THEIR CAPITAL STOCK TO WORKERS, FARMERS AND THE PUBLIC. THE FIRMS ARE: IRAN NATIONAL MFRG. CO., ARJ CORP, PARS INDUSTRIAL CO., ALBORZ INVESTMENT CO., KASHAN VELVET AND SILK

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CO., JAHAN VEGETABLE OGX CO., IRAN CONTAINER CORP., AMA INDUS-

TRIAL CO., KHAVAR INDUSTRIAL GROUP, DASHAN SPINNING AND WEAVING CO., AND KERMANS SHAH SUGAR CO. THESE FIRMS REPRESENT AN AGGREGATE CAPITALIZATION OF 8.5 BILLION RIALS (\$123 MILLION) WITH SALES LAST IRANIAN YEAR OF 50 BILLION RIALS (\$725 MILLION). THE COUNCIL'S ANNOUNCEMENT SAID THE ASKING PRICE OF SHARES, IN MOST CASES 100 TO 150 PERCENT HIGHER THAN FACE VALUE, WAS DETERMINED BY CRITERIA INCLUDING THE AVERAGE PROFIT OVER THE LAST THREE YEARS (1351, 1352 AND 1353). THE PRESS ATTRIBUTED TO OFFICIAL SOURCES AN ESTIMATE THAT 10,000 WORKERS WOULD PARTICIPATE IN THIS FIRST STA

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3. THE PROCEDURE FOR WORKER PURCHASE OF SHARES THROUGH OCT. 2 (THROUGH OCTOBER 6 IN THE PROVINCES) IS AS FOLLOWS: (1) WORKER APPLIES TO HIS COOPERATIVE FOR ELIGIBILITY CERTIFICATION (MINIMUM THREE YEARS WITH THE FIRM) AND MAKES PURCHASE APPLICATION; (2) IF THE WORKER REQUIRES FINANCING, APPLICATION GOES TO COUNCIL'S FINANCING ORGANIZATION. ALTHOUGH, AS REPORTED, WORKERS MAY BORROW UP TO 100,000 RIALS FOR PURCHASE OF SHARES, THEY ARE LIMITED TO BORROWING OF 40,000 RIALS THIS IRANIAN YEAR. SHARES WILL BE HELD BY THE ORGANIZATION UNTIL FULLY PAID. THIS PROCEDURE AND PROFILES OF THE ELEVEN FIRMS WERE CARRIED IN A PAGE AND A HALF ADVERTISEMENT IN PERSIAN NEWSPAPERS SEPT 23. THE ANNOUNCEMENT SAID FURTHER INFORMATION WOULD BE BROADCAST CONCERNING PROCEDURES AFTER OCT. 2 WHICH WOULD AFFECT STOCK SALES TO FARMERS AND THE PUBLIC, AS WELL AS WORKERS.

4. ACCORDING TO ANNOUNCEMENT, THE ENTERPRISES WILL NOT BE PAID IN CASH FOR SHARES SOLD BY THE FINANCING ORGANIZATION'S CREDIT FACILITIES. RATHER, THEY WILL BE PAID IN TWO, THREE AND FIVE YEAR BONDS AS FOLLOWS: PAYMENT WILL BE ONE-THIRD OF TOTAL IN TWO-YEAR BONDS BEARING INTEREST OF NINE (9) PERCENT AND BALANCE EQUALLY IN THREE (3) AND FIVE (5) YEAR BONDS CARRYING INTEREST OF 9.5 AND 10.0 RESPECTIVELY. COMMENT: IT IS PRESUMED THAT FUTURE SHARE OFFERINGS WILL PROVIDE SIMILAR FORM OF PAYMENT TO FIRMS (E.G. US JOINT VENTURES) FROM SHARES SOLD UNDER THIS CREDIT FACILITY.

5. THE OFFICIAL PARS NEWS AGENCY ANNOUNCED SEPT. 23 THE FORMATION OF THE IRAN NATIONAL INVESTMENT COMPANY (SEE ENCL. 1 OF LIMITED OFFICIAL USE

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REF. C) AND THE OFFERING OF FIVE (5) PERCENT OF ITS SHARES TO THE PUBLIC WITH PAYMENT FROM SEPT. 29 TO OCT. 2 (AIRGRAM FOLLOWS) ONE OF THE FUNCTIONS OF THE INIC WILL BE THE PURCHASE OF SHARES OF PRIVATE AND PUBLIC ENTERPRISES, COMPLEMENTING DIRECT PURCHASES BY WORKERS, FARMERS AND THE PUBLIC. END UNCLASSIFIED

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6. COMMENT: THERE APPEARS TO HAVE BEEN SOME SLIPPAGE IN THE

SHARE OWNERSHIP PROGRAM SINCE ONLY ELEVEN (11) OF THE THIRTY-SEVEN (37) FIRMS RECOGNIZED BY THE GOI IN JULY AS QUALIFIED TO SELL HAVE BEGUN DOING SO. BUT ATTAINMENT OF THE ANNOUNCED OBJECTIVE OF PLACING SHARES OF 106 FIRMS ON THE MARKET BY END OF 1976 (MARCH 20, 1976) REMAINS POSSIBLE. IT MAY BE COINCIDENCE THAT TO EMBASSY'S KNOWLEDGE NONE OF THESE FIRST ELEVEN FIRMS CONTAIN FOREIGN EQUITY, BUT IT IS LOGICAL THAT THE GOI MIGHT WANT TO ESTABLISH THE MECHANISM AND CONTAIN BUSINESS REACTION PURELY TO NATIONAL FIRMS. THE EFFECT OF THE 49 PERCENT MANDATORY SHARE SALE HAS BEEN CLEARLY REGISTERED. APPLICATIONS FOR INVESTMENT LOANS ARE REPORTEDLY OFF AND THE EMBASSY AND LOCAL U.S. BANK REPRESENTATIVES CONFIRM THE STEEP FALL-OFF OF JOINT VENTURE PURSUIT. AS AN OFFICIAL OF A MAJOR U.S. BANK PUT IT, "WHEN A WOULD-BE U.S. INVESTOR CALCULATES THAT HIS MAXIMUM EQUITY POSITION CAN BE 24.99 PERCENT (51 PERCENT OF THE MAXIMUM 49 PERCENT FOREIGN EQUITY) HE COOLS." ACTUALLY THIS IS NOT NECESSARILY SO. JOINT VENTURE MANAGEMENT COULD NEGOTIATE A DIFFERENT SPLIT OF THE 51 PERCENT. NONETHELESS, EMBASSY KNOWS OF NO NEW JOINT VENTURE PROPOSALS IN RECENT MONTHS AND SEVERAL MAJOR ONES HAVE MOVED TO THE "SUSPENSE" STATUS. IT IS TOO EARLY TO ASSESS RESULTS OF THESE SHARE OFFERS -- WHETHER THE PROVERBIAL HORSE ONCE LED TO WATER WILL DRINK. THIS WILL BE EXAMINED AND REPORTED.

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